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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [NU](#)
SUBJECT: NICARAGUAN LIQUIDITY STRATEGIES COVER JITTERS BUT
NOT PANIC

REF: MANAGUA 2428

11. (SBU) Summary: Until September, Nicaraguan bank depositors defied expectations by keeping their money in Nicaragua, with pre-election jitters only manifesting themselves in September. By October 31, deposits had dropped 4.6% from their August peak of USD 2.2 billion. To cover heavier than usual withdrawals, the Nicaraguan Central Bank (BCN) asked banks to maintain liquidity and signed a USD 150 million contingency line of credit with the Central American Bank of Economic Integration (BCIE). These measures are designed for elections jitters, not a major run on the banks or a currency crisis. End Summary

Depositors Hold Firm in First Half of 2006

12. (U) In the lead up to the November 5 election pundits believed that Nicaraguans would take their money outside the country throughout the year. Until September, however, depositors stood firm adding to the banking system's steady growth since 2001. As of October 21, deposits were up 8% from 2005 and 16% from 2004. The peak came in August when the system registered USD 2.2 billion in deposits. The continuing profitability of this sector enticed GE Financial (in 2005) and Citibank (in October 2006) to buy half of two of Nicaragua's largest financial companies, Banco de America Central and Banco Uno, respectively. (Note: The Citibank/Banco Uno deal awaits regulatory approval. End Note.)

But were poised for quick exits, which started in September

13. (SBU) These deposits were poised for quick movement, however. 66% of deposits are in U.S. dollars, with most set to mature in November and December. The only long term deposits in the system belong to the GON. As November 5 approached and the outcome of the election got muddier, depositors began to demonstrate the jitters the BCN had expected since January. Between September 20 and October 21, USD 44 million left the system, a 2% drop. On October 27, deposits had dropped by 3.6% from their peak in August. As of October 31, this number was 4.6%. (Note: A drop of 10% is considered a currency crisis. End note.)

BCN Measures to Ensure Liquidity

¶4. (SBU) The IMF ResRep told us that, following the advice of the BCN, most banks increased cash holdings in September to cover about 40% of deposits. (Comment: While this allows banks to cover the heavier than normal withdrawals by jittery depositors, it also means that they are not operating at their full earning potential and could quickly take capital out themselves if needed. End Comment.)

¶5. (SBU) In the last few years the BCN built up reserves to a high of USD 870 million, just over two months of imports, which could help them cover some of these election related withdrawals. The BCN also signed a USD 150 million contingency line of credit with the BCIE, available once total deposits drop 7.5% from their peak in August. The BCN could draw on the line of credit in one or several advances until October 9, 2007, to provide liquidity to individual banks as needed.

Comment

¶6. (SBU) BCN's measures and the banks' liquid positions will only address the heavy withdrawals caused by pre-election jitters. They are not designed to handle the full-fledged currency crisis that some predict will develop with Ortega's probable victory. The IMF ResRep told us that his institution stands ready to provide bridge financing to the GON to help stabilize the economy, but is doubtful Ortega will ask the IMF for such help. (reftel) End Comment.
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